

Message Text

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ORIGIN EUR-25

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PM - MR. GRAHAM (SUBSTANCE)

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FM SECSTATE WASHDC

TO AMEMBASSY BONN IMMEDIATE

INFO USMISSION NATO IMMEDIATE

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E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: OFFSET

REFERENCE: (A) BONN'S 6328

1. IF FEASIBLE FOR EMBASSY AND FRG FOREIGN OFFICE, DEPARTMENT PROPOSES THAT MINUTE AND PROTOCOL CONSTITUTING NEW OFFSET AGREEMENT BE SIGNED BY HERMES AND AMBASSADOR HILLENBRAND APRIL 25 AT 1700 HOURS BONN TIME (NOON WASHINGTON TIME). WE PLAN AT THAT TIME TO RELEASE PRESS COMMUNIQUE AS AMENDED IN STATE 81353. WE HAVE TWO ADDITIONAL VERY MINOR CORRECTIONS IN THAT TEXT: IN THIRD SENTENCE PARA 2, "1969/71 AGREEMENT" SHOULD READ "1970/71 AGREEMENT". IN
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LAST SENTENCE SECOND PARA "LOW INTEREST PAPERS OF US

TREASURY" SHOULD BE CHANGED TO READ "LOW INTEREST US TREASURY SECURITIES".

2- IN LIGHT OF OUR UNILATERAL INTERESTS AND POLITICAL CONSIDERATIONS, WE PLAN, IN ADDITION TO OFFICIAL COMMUNIQUE TO HAND TO PRESS AN EXPLANATORY NOTE. IN RESPONSE TO REF A TEXT OF THIS EXPLANATORY NOTE FOLLOWS. AS COURTESY TO GERMANS, WE WOULD LIKE YOU TO SHOW THIS NOTE TO FOREIGN OFFICE.

3. THERE ALSO FOLLOWS TEXT OF Q'S AND A'S WE HAVE PREPARED FOR USE DURING PRESS BRIEFING TOMORROW.

4. BEGIN TEXT OF EXPLANATORY NOTE. IN CONJUNCTION WITH THE PRESS RELEASE ISSUED TODAY BY THE FEDERAL REPUBLIC OF GERMANY AND THE UNITED STATES FOLLOWING SIGNATURE OF OUR NEW OFFSET AGREEMENT, THE UNITED STATES GOVERNMENT WISHES TO ADD THE FOLLOWING POINTS:

THE OFFSET TO BE PROVIDED DURING FISCAL YEARS 1974-1975 IS LARGER IN DOLLAR TERMS AND CONTAINS MORE SUBSTANTIAL ECONOMIC BENEFITS TO US THAN WAS THE CASE IN PREVIOUS OFFSET AGREEMENTS. COGNIZANT OF THE REQUIREMENTS OF THE JACKSON-NUNN AMENDMENT, THE AMERICAN SIDE VIEWS THE AGREEMENT AS A MAJOR COMPONENT OF THE NATO-WIDE EFFORT TO SHARE MORE EQUITABLY THE COMMON BURDEN OF ALLIANCE DEFENSE. WE ANTICIPATE SUFFICIENT MILITARY PROCUREMENT FROM OUR OTHER EUROPEAN ALLIES SO THAT, TOGETHER WITH THE GERMAN OFFSET, WE EXPECT TO MEET THE REQUIREMENTS OF THIS AMENDMENT AND TO MAINTAIN OUR FORCES IN NATO EUROPE AT PRESENT LEVELS. WE BELIEVE, THEREFORE, THAT WHAT WE HAVE ACCOMPLISHED IN THIS AGREEMENT, TOGETHER WITH FORESEEABLE ACTION BY OUR OTHER ALLIES, RESPONDS TO CONGRESSIONAL INTENT AND THAT OUR PRIMARY OBJECTIVE HAS BEEN ACHIEVED. END TEXT.

5. BEGIN TEXT OF PRESS GUIDANCE FOR USE AFTER FORMAL CONCLUSION OF US/FRG OFFSET AGREEMENT.

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QUESTION: THERE HAVE BEEN REPORTS THAT THE TOTAL FRG OFFSET OFFER FOR FISCAL YEARS 1974 AND 1975 IS DOLS 2.24 BILLION. IS THAT CORRECT?

ANSWER: THE GERMAN OFFSET FIGURE IS JUST UNDER DM 6 BILLION. THE EXCHANGE RATE USED IN CALCULATING THE DOLLAR EQUIVALENT OF THE AGREEMENT WAS DOLS 1 EQUAL DM 2.669. AT THAT EXCHANGE RATE THE DOLLAR VALUE OF THE FRG OFFSET IS

ABOUT DOLS 2.22 BILLION.

QUESTION: IT HAS BEEN REPORTED THAT THE US ESTIMATED
BALANCE OF PAYMENTS DEFICIT INCURRED THROUGH DEPLOYMENT
OF US FORCES IN THE FRG OVER THE TWO FISCAL YEARS INVOLVED
WILL BE DOLS 3.3 BILLION. HOW WILL THE DIFFERENCE BETWEEN
THE FRG OFFSET AND THIS ESTIMATED DEFICIT BE MADE UP?

ANSWER: THE NEW AGREEMENT MUST BE VIEWED IN THE BROADER
FRAMEWORK OF NATO-WIDE BURDENSARING AND THE REQUIREMENTS

OF THE JACKSON-NUNN AMENDMENT WHICH CALL UPON OUR ALLIES
TO OFFSET OUR NATO-RELATED MILITARY EXPENDITURES IN
EUROPE ENTERING THE BALANCE OF PAYMENTS IN FISCAL YEAR
1974. THE DOLS 3.3 BILLION FIGURE INCLUDES SOME EXPENDI-
TURES NOT RELATED TO OUR TREATY COMMITMENTS AND OBLIGA-
TIONS. WE VIEW THE GERMAN OFFSET AS A PORTION--ALBEIT A
HIGHLY SIGNIFICANT ONE--OF TOTAL ALLIED CONTRIBUTIONS
WHICH SHOULD ENABLE US TO SATISFY THE CONDITIONS IMPOSED
BY THE JACKSON-NUNN AMENDMENT.

QUESTION: WHAT ARE THE MAIN COMPONENTS OF THE NEW OFFSET
AGREEMENT? ARE THEY SIMILAR TO THOSE OF THE LAST AGREE-
MENT?

ANSWER: IN GENERAL, THE COMPONENTS OF THE NEW AGREEMENT
ARE SIMILAR TO THOSE OF THE FY 1972-1973 AGREEMENT. AS
BEFORE, THE LARGEST SINGLE ELEMENT IS GERMAN MILITARY PRO-
CUREMENT IN EXCESS OF ONE BILLION DOLLARS IN THE US. GER-
MAN FUNDING OF REHABILITATION AND MODERNIZATION OF TROOP
FACILITIES IN THE FRG WILL CONTINUE AT THE SAME LEVEL. AS
PART OF THE AGREEMENT, THE GERMAN CENTRAL BANK WILL PUR-
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CHASE THE DOLLAR EQUIVALENT OF DM 2.250 BILLION IN SPECIAL
US GOVERNMENT SECURITIES AT BELOW-MARKET INTEREST RATES.
THE BALANCE CONSISTS OF SEVERAL SMALLER ITEMS WHICH REPRESENT
ADDITIONAL PURCHASES OF US GOODS AND SERVICES, I.E.,
EXPENDITURES WHICH WOULD NOT HAVE BEEN UNDERTAKEN EXCEPT
IN THE FRAMEWORK OF THE NEW OFFSET AGREEMENT.

QUESTION: DO YOU EXPECT THE CONGRESS TO ACCEPT THE PUR-
CHASE OF US GOVERNMENT SECURITIES AS A BONA FIDE CON-
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